

**Report by the Public Utilities Commission  
To The Utilities and Energy Committee  
Regarding MTEAF Funding  
Pursuant to P. L. 2005, Ch. 251**

**I. BACKGROUND**

P. L. 2005, ch. 251 requires the Public Utilities Commission (Commission) to submit a report to the Joint Standing Committee on Utilities and Energy detailing the status of available services and expenditures, including federal funds, for the Schools and Libraries program supported by the Telecommunications Education Access Fund (MTEAF or Fund), established under 35-A M.R.S.A. § 7104-B.

The purpose of this report is to respond to the requirements of P. L. 2005, ch. 251.

**II. EXECUTIVE SUMMARY**

In this report, we describe assessment revenues collected into the Fund, expenditures from the Fund, and funding received from the Federal E-Rate program. We conclude that the assessment authorized for MTEAF should remain at up to 0.7%. Attached is a summary of the activity of the MTEAF including estimates of revenues and expenses through 2007.

**III. REVENUES FROM MTEAF ASSESSMENT**

The MTEAF operates on a Fiscal Year basis (July 1 – June 30), the same cycle as the Federal E-Rate program. Telecommunications carriers make MTEAF assessment payments quarterly, based on usage in the previous quarter (e.g., assessments collected between October 1 and December 31 are payable in January). From July 1, 2005 through December 31, 2005, the MTEAF received \$1,547,541 in assessments. Beginning October 1, 2005, the assessment on carriers increased from 0.5% on retail charges for intrastate telecommunications services to 0.7%, as permitted by the recent amendment to 35-A M.R.S.A. § 7104-B (effective September 17, 2005) and approved by the Commission. We expect the assessment for that quarter, payable in January 2006, to be approximately \$1,075,926. We project total collections for July 1, 2005 through June 30, 2006 to be \$3.7 million.<sup>1</sup>

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<sup>1</sup> This assumes that carrier revenues remain at current levels. If customers migrate to other means of communication on which MTEAF is not collected, the assessment amounts could decrease.

**IV. MTEAF EXPENSES**

MTEAF pays for internet access for schools and libraries. We expect that the Federal E-Rate program will pay for approximately 60% of these costs, with MTEAF paying the remaining 40%. Expenses for internet connections from Verizon and internet service from the University of Maine System decreased in 2005-2006 due to favorable contract negotiations. Expenses will increase beginning July 1, 2006 when we plan to move all 180 schools and libraries that currently have 56 kbps frame relay connections to either DSL or T-1 connections. The 56 kbps equipment has become obsolete and the speed inadequate. Total program costs are expected to be \$4.2 million in 2006-2007, of which \$1,330,284 may be reimbursed by Federal E-Rate. .

**V. FEDERAL E-RATE**

In October 2005, we received Federal E-Rate reimbursement for 2002-2003 of \$2,516,468. This allowed us to make a second payment of \$2.25 million to the laptop project. In December 2005, we received E-Rate reimbursement for two months of 2005 of \$306,281. We are waiting for reimbursement for the additional 10 months of 2004-2005 of \$1,532,263. We have not yet received a commitment for 2005-2006. We are currently compiling the application for 2006-2007, which is due February 16, 2006.

**VI. CONCLUSION**

Commitments and payment of Federal E-Rate funds continue to lag behind (sometimes by years) when services are provided. Therefore, MTEAF must pay vendors 100% of costs and then wait for Federal E-Rate funds to reimburse 60% of those upfront payments. This continues to cause cash flow problems. The FCC is currently conducting a rulemaking on possible changes to the E-Rate program. Many commenters are urging that the program rules be simplified to ensure more timely payment. However, unless or until changes are made, the wait for funding will likely continue into the foreseeable future. Therefore, we believe the statute should continue to allow the assessment to be up to 0.7%. The Commission sets the amount of the assessment by May 1 each year. We will carefully monitor the needs and decrease the assessment if it appears all of the funding is not needed. If Federal E-Rate funds are received on a more timely basis, the Commission can act at any time to reduce the assessment for the following quarter.

If the Committee would like, the Commission would be happy to report back to the Committee in January 2007 and provide an updated summary of revenues and expenditures of the Fund.